JEC call with economist Joe Stiglitz
Opening statement by Professor Stiglitz
May 7, 2020

I really welcome this opportunity to share some of my thoughts at this critical time for our country and our economy and I want to thank you and Congresswoman Maloney for organizing this call.

When Congress began taking action, it was widely thought that we would have a short shutdown—the economy would, as it were, check into a hospital for a quick 10 week period, and if we gave it enough loving care, and enough money, it would have a strong V-shaped recovery.

Those were rosy expectations, both about the disease and about the economy.

The disease will be with us for far longer—how long we don't know—but that uncertainty will itself cast a pall over the economy.

Worse, death rates and contagion are likely to continue at high levels, and even after they are brought down, the best epidemiological models suggest a serious possibility of a second wave and continual outbreaks in various parts of the country.

The impact on the economy too has been more devastating than expected—the more than 33 million newly unemployed, 20 percent of the labor force, the sharp downturn in GDP, the gloomy prospects globally.

This is a profoundly different and in many ways worse and more complicated downturn than 2008. It's an interruption in both supply and demand. We will see shortages not just of tests, protective gear and face masks, but possibly of many other products. We are in a globally integrated economy, and shortages anywhere can reverberate here. Protectionist policies may backfire—we import far more medical supplies than we export, and if we restrict exports and other countries reciprocate, we will be in a far worse position.

It is possible that shortages will be far worse than we have seen, and Congress will need to act, possibly in ways which in normal times would be an anathema. But these are not normal times.

But while we face shortages of particular commodities, we will also see an overall deficiency of aggregate demand. Household and firm balance sheets will be devastated, firms will go bankrupt, and precautionary behavior will prevail.

I regret to tell you that much of the massive amounts of money you have spent did not go to where it was most needed, was not dispensed with necessary conditions attached and was not designed in ways to make it most effective. That is why the increase in our unemployment rate is so much larger than in other countries that have spent much less. That is why in spite of all the money spent, so many of our most vulnerable citizens are facing unprecedented hardship—in an advanced country like the US, people shouldn't have to rely on soup kitchens.

Markets are not working well in multiple ways. While people are going hungry, we have farmers who are dumping the fresh produce and milk they used to sell to restaurants.

Confidence has eroded. In these few minutes, I can't tell you how to redesign the array of programs needed to address the impacts of the pandemic on our economy. But I should warn you that if you don't do enough and if you don't design the programs appropriately, we are likely to face a downturn greater than anything we have seen in our lifetimes.

I want to emphasize four points.

First, to restore confidence, the government must assure the nation that it will continue to support the unemployment insurance program as long as the pandemic and its economic effects last. We've done that in past crises, and it's even more important to do it now, given the heightened level of uncertainty. Without such assurance, the downturn will last longer, possibly far longer. That's why Congressman Beyer's bill to extend unemployment benefits with a trigger tied to public health and economic conditions is so important.

Second, this virus is not an equal opportunity virus. It strikes the poor disproportionately, and unless we change course, it will lead to an increase in the country's already unacceptably high levels of income, wealth and health inequalities. But to ascertain what is going on, we need better data. Fortunately, advances in economics have provided us the tools to do this. The system of distributional national accounts proposed in Chair Maloney's bill is an essential tool at this critical moment.

Third, to forestall a deep recession we must be more comprehensive in the assistance we provide. Among the sectors that have largely been left to fend for themselves are the states and localities and education. The states and localities are on the front lines in providing health care to citizens and providing the education upon which our future depends. In the last crisis, we saw state tax revenues plummet almost twice as much as GDP. States face balanced budget constraints, and that means that these revenue decreases will have to be met with expenditure and employment cuts. This alone could almost induce a recession.

Fourth, we need to think more about what kind of an economy will emerge in the aftermath. At no time, outside of war, has government poured so much money into the economy, with such potentially profound effects. For a business, getting money may be a matter of life or death. We should be moving more toward a 21st century knowledge economy, but we are leaving our research institutions and our schools and universities to fend for themselves. We should be moving toward a green economy and an economy with more equality and more transparency; but I fear we may be moving in the opposite direction.

Some will worry about how much these measures cost. But when we entered WWII we didn't ask 'can we afford it?' We have entered another war – this time with a deadly virus.

Ironically, if we unduly constrain the assistance we provide because of worry about our ability to afford these necessary measures, it will backfire. We saw that in Europe when it imposed austerity measures. It actually will lead to a higher debt to GDP ratio, because it shrinks the denominator—at great cost to our society and our security.

You have an awesome responsibility at this critical moment and thank you again for inviting me.